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UNCLAS KUWAIT 004546

SIPDIS

STATE FOR NEA/ARPI SWALKER, LONDON FOR LTSOU

E.O. 12958: N/A

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SUBJECT: FINANCE MINISTRY ON TAX REFORM AND THE REJUVENATED  
OFFSET PROGRAM

1. (U) Summary. In an October 22 meeting with Econ Counselor, the Acting Undersecretary at the Ministry of Finance confirmed the resumption of the Offset Program and the GOK's efforts, spearheaded by the Kuwait Investment Authority (KIA), to establish a private company tasked with administering the Program. Al-Shamali also said that the National Assembly would begin reviewing the new tax reform measures, as part of the GOK's efforts to overhaul the country's outdated 1953 tax law. End Summary

2. (U) On October 22, Econcouns, accompanied by Econoff, met with Mustafa Al-Shamali, Acting Undersecretary at the Ministry of Finance, to discuss taxation procedures impacting U.S. companies with business interests in Kuwait and confirm the re-activation of the GOK's Offset Program as contrary to WTO obligations.

3. (U) On taxation, Al-Shamali acknowledged that Kuwait's 1953 tax law was outdated and that a new comprehensive reform package was before the National Assembly for review and approval. He added that a lower tax rate of 25 or perhaps 15 percent would replace the current 55 percent rate established by the 1953 law applying only to foreign companies operating in Kuwait. However, Al-Shamali was not optimistic about timely National Assembly approval of the new legislation, commenting that the reform measures were "not popular" and that approval "will take some time." He explained that the new law would establish taxable income standards for all entities, including Kuwaiti citizens, who are presently exempt from paying personal income tax.

4. (U) On the rejuvenated Offset Program, Al-Shamali confirmed that the GOK had reinstated the Program and that KIA was tasked by the GOK to establish a private company to administer the Program and relieve the Finance Ministry of administrative responsibilities. Al-Shamali does not consider the Program to be inconsistent with WTO obligations, pointing out that other WTO member states also have similar programs and that the World Bank had deemed the program consistent with WTO obligations.

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